

Edward J. Hetsko
PO Box 11188
Spokane, WA 99211



May 3, 2005

Tom Arnold
Director of Engineering Services - City Hall
808 W. Spokane Falls Blvd
Spokane, WA 99201-3343

Re: Franchise Ordinance Negotiations – Proposed Relocation of Pipeline

Dear Mr. Arnold:

First, on behalf of Yellowstone Pipe Line Company, I would like to thank you and your associates from City staff for meeting with us on Friday, April 29, 2005 to discuss your proposal for a "Geo-Tech" study to outline the risks associated with a hypothetical catastrophic spill of petroleum products from our 10 inch pipeline located adjacent to your Parkwater municipal well. We appreciate the information you provided to us on the features of the Parkwater well and the City's recent studies on the Spokane – Rathdrum Aquifer. As you are aware, our discussions regarding renewal of our Franchise from the City of Spokane have been held up for several months as we struggled with the issue of a possible request by the City for relocation of that line. After much discussion, we wish to state our opinion that the proposed Geo-Tech study would be unlikely to provide any definitive information about the Parkwater well / Yellowstone pipeline situation beyond that which the City and Yellowstone already possess.

The 10 inch diameter carbon steel petroleum pipeline in question was installed and placed into service 15 years ago, in strict accordance with state and federal regulations. At that time, as required by the existing franchise, Yellowstone Pipe Line Company sought and received approval for the relocation of the pipeline from the Spokane City Council, following review of the route proposal by City staff. The new pipeline was installed by Yellowstone Pipe Line Company, at a substantial cost, as replacement for a previous line that had been in service for 35 years. The route of the pipeline was relocated from Airport Road and Commerce Street for public safety reasons; specifically, to avoid interference with other utilities in the public street and proximity to houses. There has never been a leak from this new line in its 15 year history; moreover, the new line was recently inspected by an internal inspection tool, pursuant to state and federal requirements, and this inspection revealed no anomalies.

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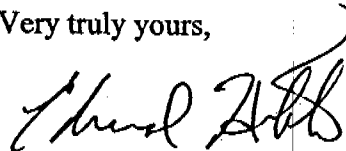
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At the City's request, we have developed estimates of the costs of relocation of the existing pipeline along Airport Road (the prior route), across the Railroad right-of-way, and under Trent Avenue. The cost of such a relocation of the pipeline exceeds \$1,000,000. Aside from the issue of this extraordinary expense, Yellowstone Pipe Line Company believes that additional factors support the maintenance of the pipeline in its existing location, including, (i) the presence of remote controlled motor driven isolation valves in proximity to the Parkwater well, (ii) the low normal operating pressure (less than 200 PSI) in the pipeline (the pipeline was tested to 890 PSI) and (iii) the flat terrain in the area adjacent to the Parkwater well. The remote controlled isolation valves have the capability of very rapidly (within 60 seconds or less) shutting off the flow of petroleum products in the event of an emergency incident. In the opinion of Yellowstone Pipe Line Company, the most probable release of petroleum product in the area of the Parkwater well would result from third party interference with the pipeline and the resulting release of petroleum product would be a small fraction of the amount of petroleum in the pipeline between the existing isolation valves.

As we proceed with the negotiations on the renewal of our Franchise, we believe we can successfully address the remaining issues between the City and Yellowstone Pipe Line Company; however, we do not believe that relocation of the pipeline is necessary or desirable. The pipeline was installed along a route through an industrial and commercial area to avoid close proximity to residential housing, and is therefore far less likely to suffer third party interference by improper excavation. A relocation of the pipeline to Airport Road would not diminish the risk of third party interference by improper excavations and may provide only a marginal improvement in the security of the Parkwater municipal well. For these reasons, it is the opinion of Yellowstone Pipe Line Company that relocation of the pipeline is not advisable; however, if the City wishes to relocate the line, we believe it should be at the sole cost and expense of the City. If the City wishes to pursue relocation on this basis, Yellowstone Pipe Line Company would be willing to discuss such a proposal. We look forward to completing the discussions to resolve the remaining issues in our Franchise renewal.

Very truly yours,



Edward Hetsko
District Director
Yellowstone Pipe Line Company